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SUBJECT: Mongolia's Newest Domestic Private Airline: EZnis

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¶1. Summary: Mongolia's second domestic private airline, EZnis Airways, was launched in December 2006, taking advantage of the vacuum created when the country's flag carrier MIAT sharply reduced domestic routes (reftel a). Mongolian telecom/IT company Newcom has funneled substantial amounts of money and expertise into making the airline a success, and has hired a stable of foreign managers and trainers to ensure that international safety standards are maintained. USTDA recently awarded EZnis a US\$500,000 grant for technical assistance with its expansion plans. Nevertheless, competition with Aero Mongolia, founded three years ago, for the country's estimated 160,000 annual travelers will be fierce. Both private airlines are interested for bidding on the state run MIAT if, as expected, it is privatized; the prize would be MIAT's international routes. End Summary

Flying is the EZ part

¶2. EZnis Airways (meaning "fly easy"; "nis" means "fly" in Mongolian) is 100% backed by the Mongolian telecom and IT leviathan Newcom Group, whose initial investment totaled over US\$10 million, a very substantial amount in Mongolian terms. The start up is the second privately run airline to emerge in the landlocked nation (Aero Mongolia, established in 2003, being the first). Throughout the 1990s Mongolia's state run airline MIAT highly subsidized its domestic airfares, effectively blocking private airlines from entering the market. With one decrepit Antonov-26, flag carrier MIAT now barely maintains a domestic schedule. The decay in MIAT's flyable domestic fleet caused it to cut flights sharply three years ago; an extensive array of MIAT's unflyable planes is now parked off the tarmac at the Ulaanbaatar airport. (Note: Because of the age of the AN-26, it is uninsurable, and U.S. Government employees are prohibited from flying on MIAT domestically; internationally, MIAT flies Boeing and Airbus planes and is fine.) The vacuum because of MIAT's decline created the perfect conditions for start ups to enter the market, according to EZnis CEO R. Arvintsogt. "Before EZnis' arrival, only one airline, Aero Mongolia, served the domestic market" Arvintsogt told Econoff during a recent meeting, "The sector was crying out for competition!"

¶3. With growth in the mining industry expected to quicken over the next decade, and average incomes of Mongolians steadily on the rise,

EZnis wanted to establish itself early in the game. With the help of a recent USTDA grant award of US\$500,000, the company will receive technical assistance in doing a feasibility study of its expansion plans. Over the next 1-3 years, the EZnis will work to build its operation and establish its brand name in Mongolia. After three to seven years the airline plans to expand its operations to nearby international destinations in China, Korea, Japan and Russia. Major mining concerns such as Rio Tinto, Ivanhoe and BHP Billiton have already contracted EZnis for charter services to remote mining areas in the south Gobi desert signaling a vote of confidence in the new airline.

#### Investing in Safety

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14. Newcom did its homework before plunging into the airline industry. The company undertook a 12-month feasibility study before moving to purchase its two aircraft and have engaged aviation consulting firm Simat Helliesen & Eichner, Inc. (SH&E) to develop its business plan. Newcom has committed huge sums of its own funds to purchase planes outright and, at least for now, are paying foreign experts top dollar to train the staff and maintain the equipment. Safety was of primary concern when Econoff visited their offices recently and a tour of their facilities reveals how meticulous they were about maintenance and training.

15. EZnis' fleet currently consists of two aircraft, both Swedish built SAAB 340Bs (two engine turboprops, 34-seater) which were purchased directly from American Eagle Airlines in early 2006. EZnis plans to invest in two additional aircraft by summer 2007. Before export to Mongolia in February 2006, the FAA issued a Certificate of Airworthiness for both aircraft that is valid until February 2008. The airframes of both planes also underwent a full blown "C" check around the same time, and the next C check will take

place after 4000 flight hours (sometime next year).

16. Both aircraft were manufactured in 1991-92 and so are about 15 years old, half way to their recommended life span of 30 years according to EZnis. The airline employs a team of 14 mechanics, including Saab experts from Australia and Sweden. The expat mechanics are working on a six-month contract basis which will likely be renewed for at least another six months. If they are following in the steps of their competitor Aero Mongolia, then they will likely let the expats go once they feel their local staff has been sufficiently trained. When asked by Econoff about the challenges of maintaining aircraft in Mongolia's harsh weather conditions, the Swedish mechanic chuckled and said it wasn't anything they haven't already experienced in Sweden.

17. Foreign expertise is also found in other departments of the company. The Quality Assurance Director, whose job it is to make sure EZnis meets ICAO standards, is Japanese as are two instructor pilots and one engineer. One of the airline's pilots is an American.

18. The company provided us with information on a long list of technical support providers including Saab Aerotech AB for spare parts, GE Aviation for engine support etc, as well as big names behind its training regimen; Boeing for crew resource management, Qantas for emergency training, Saab AB, GE Aviation and Hamilton on maintenance.

19. EZnis houses their aircraft in the airport's one hangar at night (paying a hefty fee for the privilege). Aero Mongolia's Fokker 50 and Fokker 100, on the other hand, are too big to fit easily into the hangar with the other aircraft and are forced to spend the night on the tarmac -- a fact which reportedly caused at least one mechanical problem this past winter.

110. EZnis is insured through AON Aviation Brokers in London, one of the industries largest insurance providers, and Mongol Daatgal is acting as local fronting firm. Each aircraft is insured for USD 200 million (third party liability).

111. For now, the airline serves four destinations; Murun, Bayankhongor, Choibalsan, Dalanzadgad, mainly because these airports

feature paved runways. EZnis was recently granted permission by Mongolia's Civil Aviation Authority (MCAA) to start flying to airports with unpaved runways and will start flights to five additional destinations in the very near future.

#### Is Big Sky Country Big Enough For Both of Us?

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¶12. The estimated size of the domestic airline market in Mongolia is approximately 160,000 passenger-seats per year. This is down from 800,000 passenger-seats per year -- about half the country's population at the time -- in the communist heydays of the 1970s and 80s, when heavily subsidized fares made air travel the best alternative to crisscrossing Mongolia's expansive and mostly road-less terrain. EZnis feels the market is big enough to accommodate both airlines, but in a recent interview with Econoff, the president and CEO of Aero Mongolia expressed unhappiness with competition in the sector saying two airlines were too much for a country of only 2.5 million people. Better, he said, that the government divide up the routes to prevent the two airlines from competing head-to-head to the same destinations.

¶13. Both companies have their eyes on a bigger prize: MIAT. The state-run airline, which recently has focused its energies on the international market, is expected to be privatized at some point, probably after parliamentary elections in mid 2008. Moves to privatize MIAT this year were blocked by the Cabinet. Executives at both airlines told Econoff that they hoped to "participate" in the privatization of MIAT, with Aero Mongolian execs going so far as state that Newcom created EZnis solely to better position itself as a buyer when MIAT is finally up for sale. Acquiring MIAT would give the new owners access to valuable international routes and landing rights at international airports like Beijing, Seoul, Berlin, Tokyo and Moscow. Other than that, both airline execs agree, the airline isn't worth much; a name that only the savviest international travelers would recognize, and perhaps MIAT's aging facilities at

Ulaanbaatar's airport.

Goldbeck